Supreme Court, U.S.
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SEP 15 1971
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IN THE

Supreme Court of the United States

OCTOBER TERM 1971

No. 71-4

FRONTIER CONTACT LENSES, INC., and WILLIAM FEINBLOOM,

Petitioners,

—v.—

THE PLASTIC CONTACT LENS COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF FOR RESPONDENT IN OPPOSITION

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Opinions Below

The opinion of the district court (Appendix B of Petition) is reported at 324 F. Supp. 213 (W.D.N.Y. 1969). The opinion of the court of appeals (Appendix A of Petition) is reported at 441 F.2d 67 (2d Cir. 1971).[1]

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[1] The opinion of the court of appeals is inaccurately referred to in the table of contents of the Petition as "Per Curiam." In fact, the unanimous decision of the court of appeals was written by Chief Judge Lumbard, and joined in by Circuit Judges Kaufman and Anderson.

Jurisdiction

The jurisdictional requisites are adequately set forth in the petition.

Questions Presented

1. The terms of settlement of patent infringement litigation between respondent, The Plastic Contact Lens Company ("PCL"), the owner of the Tuohy patent for corneal contact lenses, and the owner of the competing Butterfield patent, included the mutual conveyance of prepaid license rights under the respective patents.

a) Did such settlement violate the rights of respondent's non-exclusive licensee, Frontier Contact Lenses, Inc. ("Frontier"), under the most favored licensee clause of its license agreement where such clause contained a specific exception "for the manner of settlement of past infringement"?

b) Did PCL receive consideration for such conveyance of license rights?

c) Did Frontier's most favored licensee clause entitle it to receive a "royalty-free" license without furnishing consideration to PCL equivalent to that which PCL received from the Butterfield interests?

d) In PCL's action for accounting and royalties, was Frontier banned from asserting as a defense PCL's alleged breach of the license agreement, where Frontier elected not to terminate the agreement but continued to manufacture and sell under the protection of the Tuohy patent?

e) Did PCL, in any event, fulfill all of its obligations under the most favored licensee clause by its written offer

to all licensees of similar license right to any licensee in a position to furnish consideration equivalent to that received from the Butterfield interests?

2. Did the license agreement require an accounting and royalties on all lens devices manufactured and sold?

3. Is such royalty accounting clause valid under the doctrine of *Zenith Radio Corporation* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969)?

4. Is the district court's finding that Frontier continued to manufacture under the Tuohy patent after it ceased paying royalties, and the affirmance of such finding by the court of appeals, so "clearly erroneous" under Rule 52(a) of the Federal Rules of Civil Procedure that it should be set aside?

Statement

This litigation concerns the efforts of The Plastic Contact Lens Company (hereinafter "PCL"), a contact lens manufacturer to obtain an accounting and royalties under a non-exclusive patent license agreement with its licensee, Frontier Contact Lenses, Inc. (hereinafter "Frontier"). After trial, without a jury, the district court (a) found for plaintiff and rejected all of the proffered defenses; (b) dismissed various counterclaims; (c) directed an accounting, by a special master, of royalties due under the license agreement; and (d) confirmed the report of the special master and entered judgment in favor of plaintiff and against defendants, jointly and severally, in the sum of $62,359.66, together with interest, costs, and fees of the

special master. The court of appeals affirmed. Certiorari is sought not by all of the defendants-appellants in the lower court, but only by the defendant-appellant Feinbloom in his own capacity as one of three liquidating stockholders of the dissolved corporate defendant, and by the defunct corporate defendant. The patent in question, the Tuohy patent No. 2,510,438, dealing with corneal contact lenses, expired on June 6, 1967.

In lieu of a further statement of the unique facts of this case, respondent is content to rely on the statement of the case contained in the opinion of the court of appeals, 441 F.2d at 68-70, App. A, pp. 2305-2309,[2] which, in turn, accepted and summarized the more elaborate statement of the case in the district court's opinion, 324 F. Supp. at 214-218, App. B, pp. 2-9.

In addition, however, respondent believes it necessary to rebut a number of misstatements and extra-contextual excerpts which appear in portions of the petition entitled "Statement of the Case" and "Facts."

1. On page 5 of the petition, it is stated that Frontier's counterclaim for royalties was based on an alleged "mistake of law and fact." This is untrue. Frontier's counterclaim, paragraph 23, clearly alleges only "a mistake of fact," and there is no mention anywhere in the pleadings of a mistake of law. Defendant's change of strategy, first asserted at the trial, App. B, p. 12, that the royalty payments were mistaken in law, is not hard to understand in the light of the absence of proof that it was a mistake of fact. App. A, p. 2313.

[2] All references to the opinions below will hereinafter be to the appendices to the petition.

2. Numerous references are made in the petition to alleged "royalty-free licenses" granted to the four indemnified Butterfield licensees (pp. 5, 6, 7, 8, 13, 15, 16), and it is asserted that none of these licensees provided PCL with any consideration (p. 16). But the district court expressly found that licenses were never granted directly to these Butterfield licensees; rather it was Butterfield which received the right to license them under certain specified conditions, App. B, p. 10.

3. On page 7, and again on page 12, it is asserted that it was stipulated in the Butterfield settlement that PCL had infringed on Butterfield's patent and that Butterfield had not infringed on PCL's patent. That there is a world of difference between a judicial finding of infringement or non-infringement after trial, and a bargained-for stipulation of settlement, is elucidated by the specific holding of the court of appeals, App. A, p. 2310.

4. It is asserted, on page 8 of the petition, that "the uncontradicted record" shows that Frontier did no manufacturing under the Tuohy patent after the Butterfield settlement. The record is not only not "uncontradicted," but both the district court, App. B, p. 14, and the court of appeals, App. A, p. 2312, expressly found this factual question to be resolved in PCL's favor.

5. It is, likewise, asserted on page 8 that "the court interpreted the license" to require payment of royalties on all devices. This statement is doubly erroneous. First, this was not an "interpretation" by the court, but an express finding of fact, based on the understanding and actions of the parties. Second, this finding was based on

unrebutted testimony that Frontier so understood and interpreted the agreement, App. B, p. 14; App. A, pp. 2312-2313.

6. It is not true, as is asserted on page 10 of the petition, that the court of appeals "rejected" the district court's findings. As the opinion reveals, the findings of fact made by the district court were described by the court of appeals as "fully and accurately presented", App. A, p. 2305, but the court of appeals affirmed the judgment on grounds other than those relied upon by the district court. *Id.* at 2309. An affirmance on other grounds is hardly rejection.

7. On page 11, the petition characterizes the most favored licensee clause as being "non-conditional," but the very language of the clause makes it very much conditional since any rights thereunder are subject to the grant of a subsequent license agreement "upon terms and conditions more favorable", App. A, p. 2306. The very essence of this case is that a licensee does not acquire most favored licensee rights under such a clause unless it is ready, willing and able to assume all of the conditions of the presumably more favored subsequent license. See *infra*, pp. 11-13.

8. On page 13, it is asserted that PCL "paid Butterfield $66,000 in partial compensation for the infringement of the Butterfield patent." This is contrary to the express finding of the district court, affirmed by the court of appeals, App. A, p. 2310, "that the litigation settled involved reciprocal claims of infringement of both patents," and that there was a flow of considerations between the settling parties on each side of the litigation.

9. It is claimed (p. 16) that the Tuohy patent fell into disfavor because the Tuohy lens "touched the cornea of the eye and caused damage to the eye." The petition states that "this stands uncontradicted in the record," but not a single record reference is given. In fact, this statement is contrary to the testimony of the petitioner Feinbloom, Tr. p. 155, as well as the testimony of plaintiff's President, Tr. pp. 287-291, 293, 296-297, 300, 311, 313, 320-323. Moreover, the district court expressly found that after cessation of the royalty payments, "Frontier continued to manufacture lenses under the Tuohy patent," App. B, p. 14, and the court of appeals expressly affirmed this finding, App. A, p. 2312.

10. Finally, it is asserted on page 17 that if the license is interpreted to require royalty payments on all lenses, then this constitutes patent misuse. But there is no patent misuse without the application of coercion or other illegal conditioning, *Zenith Radio Corporation* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), and not a shred of evidence has been submitted in support of such a fanciful contention.

Argument

Certiorari should be denied because there is no conflict of decision requiring resolution by this Court, and because the decision below is plainly correct. Moreover, the unique facts of this case do not raise any important questions of federal law which merit the attention of this Court.

I.

There Is No Conflict of Decision

The petition raises four questions. Questions 1 and 2 concern the effect of the settlement of patent infringement litigation between PCL and George H. Butterfield and a related Butterfield corporation, on the most favored licensee clause of a non-exclusive patent license agreement between PCL and its licensee Frontier. The petition argues that the grant, as one of the terms of the settlement, of certain prepaid license rights to the Butterfield interests, including four indemnified Butterfield licensees, gave rise to a right to Frontier to receive a "royalty-free" license.

Questions 3 and 4 concern the validity, both generally, and under the facts of this case, of the royalty accounting provision of the license agreement, which requires payment of royalties on all lenses manufactured and sold.

Not a single court of appeals decision is cited as being in conflict with the decision of the Second Circuit on any of these questions. Indeed, the cited decision in *The Plastic Contact Lens Company* v. *Butterfield*, 366 F.2d 338 (9th Cir. 1966), *cert. denied* 385 U.S. 1009 (1967), supports respondent's position on the validity of the royalty accounting provision.[3]

The only "conflict" even claimed by the petition is between the decisions of the court of appeals and the district

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[3] *St. Joseph Iron Works* v. *Farmers Manufacturing Co.*, 106 F.2d 294 (4th Cir. 1939), cited in the petition (p. 25), stands only for the self-evident proposition that a most favored licensee clause entitles a licensee to the same license terms and conditions as a subsequent licensee. But it plainly does not hold that a licensee with such a clause is entitled to a *better* license than the subsequent licensee. See Point II, *infra*.

court in this case, on the question of the effect of the Butterfield settlement on Frontier's most favored licensee rights. The district court found for PCL on two of three arguments, and rejected the third. The court of appeals, while accepting the accuracy of the district court's findings on the first two arguments, chose to affirm the judgment based on the third argument, observing that the district court had failed to state reasons for rejecting the third argument. That any one or more of the three arguments must lead to judgment in PCL's favor is demonstrated in Point II, *infra*.[4] Moreover, on the question of the validity of the royalty accounting clause, both courts below were in absolute agreement on the facts and the law. We respectfully urge that there is no basis for a grant of certiorari premised on this minimal difference between the courts below on the reasons why respondent should prevail. See STERN AND GRESSMAN, SUPREME COURT PRACTICE, 161-162 (4th ed. 1969).

A final and even more nebulous suggestion of conflict, not even asserted among the "Questions Presented" (pp. 2-4), is that the decision of the district court—but apparently not the court of appeals (p. 27)—was inconsistent with this Court's decision in *Zenith Radio Corporation* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969). The court of appeals specifically considered this argument and concluded that there was no basis in law or in fact for application of the *Zenith* doctrine, citing its own prior decision in *Glen Mfg., Inc.* v. *Perfect Fit Industries, Inc.*, 420 F.2d 319 (2d Cir. 1970), *cert.* denied 397 U.S. 1042 (1970).

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[4] The argument in the petition (p. 24) that the court of appeals was without jurisdiction to consider and rule on the third argument, since PCL did not cross-appeal from the district court's judgment, is plainly without merit. *Dandridge* v. *Williams*, 397 U.S. 471, 475-476, n. 6 (1970).

II.

The Decision Below Is Correct

1. *The Butterfield settlement did not give rise to any rights to Frontier under the most favored licensee clause.*

a. The court of appeals ruled in PCL's favor that license rights conveyed to the Butterfield interests as part of the settlement of the patent infringement litigation with Butterfield, came within the plain words of the exception to the most favored licensee clause, "except for the manner of settlement for past infringement." App. A, p. 2306. Petitioners argued unsuccessfully below that this clause should be construed to read "except for the manner of settlement for past infringement of the Tuohy patent." The court of appeals pointed out that other provisions of the license agreement do indeed make specific reference to infringement of the Tuohy patent, but not paragraph 8, the most favored licensee clause, which obviously refers to any patent infringement litigation. App. A, pp. 2309-2310. The petition reiterates the same argument, that the clause should be read otherwise than it is written (p. 25), but does not even attempt to meet the ruling of the court of appeals,[5] much less to rebut it.

The court of appeals also ruled that the Butterfield settlement was for infringement of the Tuohy patent as well as the Butterfield patent, since "The litigation settled involved reciprocal claims of infringement of both patents." App. A, p. 2310. The petition cites no contrary authority,

[5] Page 20 of the petition, in quoting a portion of the court of appeals' ruling on this point, omits the two sentences which contain the court's reasoning. App. A, pp. 2309-2310.

and there is none. The only other court to rule on this point came to the same conclusion as the court below. *Plastic Contact Lens Co. v. Guaranteed Contact Lenses, Inc.*, 283 F. Supp. 850, 853 (S.D.N.Y. 1968). In response to the argument made below and reiterated here, that the settlement documents included a stipulation that Butterfield had not infringed the Tuohy patent, the court of appeals held the stipulation "irrelevant, since that stipulation, having a dollar value, was merely part of the exchange of consideration in the settlement. It is not the same as a finding of no infringement by a court, after testimony and argument, and hence has no probative value." App. A, at *id.* The petition fails to confront this argument.

b. Although the court of appeals confined its affirmance of the judgment of the district court on the Butterfield settlement question to the exception clause of the most favored licensee provision, there are other arguments, equally meritorious, which support the correctness of the judgment.

c. The district court held that Frontier was not entitled to most favored licensee rights by reason of the Butterfield settlement, since Frontier refused to give PCL similar consideration to that which PCL received from the Butterfield interests. The specific findings[6] by the district court

[6] "Concerning these arguments, the court finds that there was substantial consideration given by Butterfield to PCL for the licenses received for itself and for its sublicensees. Frontier's argument that the settlement agreement was a complete capitulation by PCL to the demands of Butterfield is rejected. PCL received a paid-up license to the Butterfield patent, the right to solicit Butterfield licensees for the Tuohy patent, and the right to sue for infringement of the Tuohy patent. The settlement agreement also relieved PCL from the heavy burden of the District Court injunction which tied up its licensing program. It may be difficult to put

of the valuable consideration received by PCL in the Butterfield settlement were held "undisputed" by the court of appeals. App. A, p. 2308.[7] *Accord*: *Plastic Contact Lens Co.* v. *Guaranteed Contact Lenses, Inc., supra.*

That the district court's decision was correct is demonstrated by a large number of cases which hold that a most favored licensee clause entitles a licensee only to the same agreement as that received by the subsequent licensee, and not to a better one. The licensee must accept all the conditions of the new license agreement, not just the terms which it deems more favorable. *Harley-C. Loney Co.* v. *Mills,* 205 F.2d 219 (7th Cir. 1953); *Sbicca-Del Mac, Inc.* v. *Milius Shoe Company,* 145 F.2d 389, 402, 403 (8th Cir. 1944); *Foster* v. *Goldschmidt,* 21 F. 70, 73 (S.D.N.Y. 1884);[8]

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a dollar value on this consideration, but it was substantial. Beyond stating that the license granted to the Butterfield interests was on 'more favorable terms,' Frontier offered no evidence whatever to support its argument." App. B, pp. 9-10.

[7] "Under the terms of the settlement agreement, Butterfield released all claims against Plastic for infringement of its patent, granted Plastic a royalty-free license under its patent, recognized Plastic's ownership of the Tuohy patent, granted Plastic the right to solicit Butterfield licensees for the Tuohy patent, and granted Plastic the right to convey to one of its own (Plastic's) licensees the same kind of royalty-free license under the Butterfield patent that Butterfield received with respect to the Tuohy patent as concerned the four specified Butterfield licensees. The settlement also dissolved a burdensome preliminary injunction against Plastic." App. A, p. 2308, n. 5.

[8] "The position of the defendants, therefore, is this: they insist that they are entitled to be furnished with the new appliances by the complainant on the same terms of the old license; and, while they demand the benefit of the more favorable terms of the new license, they refuse to accept those which are more onerous.

". . . If this were permissible, instead of being placed upon an equality with the new licensees, they would enjoy superior privi-

Hooker Chemical Corp. v. *Velsicol Chemical Corp.*, 235 F. Supp. 412, 444 (W.D. Tenn. 1964); *Dwight & Lloyd Sintering Co.* v. *American Ore Reclamation Co.*, 44 F. Supp. 391 (S.D.N.Y. 1937); see 4 WALKER, PATENTS §417 (2d Deller ed. 1965). As the Seventh Circuit observed in *Harley C. Loney Co.* v. *Mills, supra,* petitioners' theory that a licensee can accept only the benefits, without paying equivalent consideration, must be rejected because "if adopted [it] would result in preferred, not equality of treatment." 205 F.2d at 221.

There is nothing magical about the conveyance of license rights under a patent. It is a form of property, and it is consideration which has a dollar value. It is no different, conceptually or practically, than a lump sum payment in settlement of litigation. There is no most favored licensee violation where, in exchange for some other valuable property right, "practical business reasons," *Dwight & Lloyd, supra,* 44 F. Supp. at 394, lead to a reduced royalty. *Accord*: *Sbicca-Del Mac, Inc. supra,* 145 F.2d at 402.

Petitioners completely misconstrue the nature of a most favored licensee clause, as explained by all of the foregoing authorities. The licensee with a most favored licensee clause is not protected against all of the competitive conditions of the market place. He is protected only against licensees in the same class, and subject to the same conditions as he is. Otherwise, a most favored licensee clause would become a vehicle for the frustration of the normal and lawful pursuit of business, and the bona fide settlement of litigation.

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leges to them. Such a result was never contemplated by the agreement, and is opposed to any legitimate interpretation of its terms." 21 F. at 73.

d. An alternative argument which led the district court to award judgment to PCL is that Frontier was barred from taking advantage of any breach of the license agreement by PCL—assuming that there was a breach—since it did not repudiate the license agreement when it ceased paying royalties, but continued to manufacture lenses under the protection of the Tuohy patent. The district court's holding was manifestly correct. *Specialties Development Corp.* v. *C-O-Two Fire Equipment Co.*, 207 F.2d 753 (3rd Cir. 1953), *cert.* denied 347 U.S. 919 (1954); *Rosenthal Paper Co.* v. *National Folding Box and Paper Co.*, 226 N.Y. 313, 123 N.E. 766 (1919); *Research Frontiers Inc.* v. *Marks Polarized Corp.*, 295 F. Supp. 1050, 1053 (E.D.N.Y. 1969); *Plastic Contact Lens Co.* v. *Guaranteed Contact Lenses, Inc.*, *supra*, 283 F. Supp. at 851; *National Landscaping Co.* v. *Continental Casualty Co.*, 238 F. Supp. 793, 798 (W.D. Mo. 1965); *Wilcolator* v. *Robertshaw Thermostat Co.*, 26 F. Supp. 255 (W.D. Pa. 1939).

The petition does not even attempt to rebut this solid line of authority. It is asserted, rather, that Frontier ceased manufacturing under the Tuohy patent at a time which conveniently accommodates to the argument. The district court's directly contrary factual finding, App. B, p. 14, was upheld by the court of appeals, App. A, p. 2312. Moreover, it is irrelevant whether or not Frontier was continuing to manufacture under Tuohy. As an unterminated licensee, it continued to have the shelter of the patent, but refused to pay for it. *Wilcolator*, *supra*, 26 F. Supp. at 257.

e. Finally, the district court was also correct in its holding that PCL fully complied with the most favored licensee clause, assuming that the Butterfield settlement created

any such rights in other licensees, by the offer extended to all licensees in its letter of October 25, 1962. App. B, pp. 11-12; n. 3. The petition erroneously claims that the letter requested "additional" consideration (p. 23), but it is plain that PCL was offering its licensees precisely the same terms and conditions as governed the grant of license rights in the Butterfield settlement, "nothing more and nothing less," *Harley C. Loney Co.* v. *Mills, supra,* 205 F.2d at 221.[9]

2. *The license agreement lawfully required accounting and payment of royalties on all lenses manufactured and sold.*[10]

The petition argues inconsistently that the license agreement should be read to require royalty payments only on lenses under the Tuohy patent (pp. 28, 29), and then, on the very next page, that the license agreement is unlawful

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[9] "Where extra consideration given is a reduced royalty rate which is conditioned on the licensee's acceptance of other conditions imposed on other licensees who are accorded the more favorable royalty provisions, licensee must comply with the other conditions." 4 WALKER, PATENTS §417 (2d Deller ed. 1965).

[10] An essential predicate for petitioners' argument, that Frontier was not liable for royalty payments for any lenses not manufactured under the Tuohy patent, is that they establish non-use of the Tuohy patent during the period in question. The testimony presented at the trial, consisting entirely of the defendant Isen and the defendant-petitioner Feinbloom, obviously did not convince the trial court, which found that after the cessation of royalty payments in October, 1962, "Frontier continued to manufacture lenses under the Tuohy patent." App. B, p. 14. The court of appeals properly affirmed this finding. App. A, p. 2312. See Fed. R. Civ. P. 52(a); *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100, 123 (1969); *Kennedy Park Homes Ass'n, Inc.* v. *City of Lackawanna, N.Y.*, 436 F.2d 108 (2d Cir. 1970), *cert.* denied —— U.S. ——, 28 L. ed.2d 546 (1971). The petition presents no excerpts of testimony, or even record references, in an attempt to persuade this Court to reverse these factual findings.

under *Zenith Radio Corp.* v. *Hazeltine Research, Inc.*, 395 U.S. 100 (1969), because it requires royalty payments on all lenses. No attempt is made to rationalize or reconcile this astounding self-contradiction, even though an earlier, similar inconsistency was noted by the court of appeals. App. A, p. 2313, n. 9.

That the license agreement does require royalty payments on all lenses is plain beyond question, from the very words of the royalty accounting clause, as carefully explained by the court of appeals. App. A, p. 2312, n. 8. It is equally clear that Frontier and its officers understood this to be the requirement, and did indeed account and pay royalties on the total production of all lenses, until the decision was made to cease payment. Both the district court, App. B, pp. 12-14, and the court of appeals, App. A, p. 2313, n. 9, so held, each citing supporting testimony in the record. Indeed, the record of the trial provides massive further support of these findings. Tr. 126-127, 136, 137-138, 139, 140, 142, 179-180, 476.

An identical conclusion, involving another license agreement with the same royalty accounting clause, was reached by the Superior Court of California in *Plastic Contact Lens Company* v. *Hunt*, 158 U.S.P.Q. 615, 616 (Super. Ct., San Francisco Co., 1968). The elementary principle of contract law, that the contemporaneous understanding and action of the parties is to be given great weight, is so well-established, *Reynolds Metals Co.* v. *Skinner*, 166 F.2d 66, 71 (6th Cir. 1948), *cert.* denied 334 U.S. 858 (1948); *Air King Products Co.* v. *Hazeltine Research*, 94 F. Supp. 85 (E.D.N.Y. 1950); *Taber* v. *First Citizens Bank & Trust Co. of Utica*, 247 App. Div. 580, 288 N.Y. Supp. 350, 357 (4th

Dept. 1936), aff'd 273 N.Y. 539, 7 N.E.2d 682 (1937), that the petition is unable to cite a single case to the contrary.

Moreover, both the district court, App. B, pp. 12-13, and the court of appeals, App. A, p. 2311, explained the rational basis for such an accounting clause in terms of the similarity of the Tuohy and Butterfield patents, and the absence of any systematic method by which Frontier could determine whether it was manufacturing under the Tuohy patent. The conclusion of both courts was that Frontier understood quite clearly when it entered into the license agreement that "The purpose of the agreement was to pay small sums for all devices made." App. B, p. 14; App. A, pp. 2311-2312.

Having failed on all its arguments respecting construction of the license agreement,[11] petitioner attempted unsuccessfully in the court of appeals, and attempts once again in this petition, to argue that the license agreement is invalid as a patent misuse under the doctrine of *Zenith* v. *Hazeltine, supra.* The contention that *Zenith* forbids a license agreement whose royalty base is not limited to the patent is frivolous, since this court expressly ruled to the contrary:

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[11] An additional argument suggested in the petition (p. 31) is that the proper definition of the word "royalty" forbids payments on articles not coming within the patent grant. The only authority cited is Black's Law Dictionary, 4th Ed., 1951, which refers to a definition contained in the 1893 case of *Raynolds* v. *Hanna*, 55 F. 783, 800 (N.D. Ohio), concerning royalties on a coal mine. The overwhelming weight of authority, however, is that the term "royalties" does not restrict payment to articles coming within the terms of a patent, and that a royalty is a payment for the *privilege* of manufacturing or using the patented article. See *Commissioner of Internal Revenue* v. *Affiliated Enterprises*, 123 F.2d 665, 668 (1st Cir. 1941); *Hazeltine Corporation* v. *Zenith Radio Corporation*, 100 F.2d 10 (7th Cir. 1938); *Volk* v. *Volk Manufacturing Co.*, 101 Conn. 594, 599, 126 Atl. 847, 849 (1924); ELLIS, PATENT LICENSES §127 (3d ed. 1958).

"No such inference follows from a mere license provision measuring royalties by the licensee's total sales even if, as things work out, only some or none of the merchandise employs the patented idea or process, or even if it was foreseeable that some undetermined portion would not contain the invention. It could easily be, as the Court indicated in Automatic Radio, that the licensee as well as the patentee would find it more convenient and efficient from several standpoints to base royalties on total sales than to face the burden of figuring royalties based on actual use. If convenience of the parties rather than patent power dictates the total-sales royalty provision, there are no misuse of the patents and no forbidden conditions attached to the license.

". . . [I]f the licensee bargains for the privilege of using the patent in all of his products and agrees to a lump sum or a percentage-of-total-sales royalty, he cannot escape payment on this basis by demonstrating that he is no longer using the invention disclosed by the patent." 395 U.S. at 138-139.[12]

The final argument by petitioners is that this Court should direct a new trial for the purpose of allowing the

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[12] *Zenith* reaffirms a similar holding in *Automatic Radio Mfg. Co.* v. *Hazeltine Research*, 339 U.S. 827 (1950). The Ninth Circuit, in *Plastic Contact Lens Co.* v. *Butterfield*, 366 F.2d 338 (9th Cir. 1966), *cert.* denied 385 U.S. 1009 (1967), specifically relied on *Automatic Radio*, in upholding the validity of PCL's royalty accounting clause. In addition to the decisions of the Second and Ninth Circuits, the validity of this license agreement, in the face of a *Zenith* attack, has also been upheld in *Plastic Contact Lens Company* v. *W.R.S. Contact Lens Laboratories, Inc.*, —— F. Supp. —— (S.D.N.Y. 1970). See also *Valmont Industries, Inc.* v. *Yuma Mfg. Co.*, 296 F. Supp. 1291, 1297-1298, n. 11 (D. Colo. 1969).

introduction of additional evidence of coercion and illegal conditioning which will presumably establish patent misuse under the *Zenith* doctrine. A similar argument failed in the court of appeals, App. A, p. 2314, and petitioners are yet to explain why they did not seek to reopen the proceedings in the district court during the five months which elapsed between the *Zenith* decision and the district court decision. Moreover, as the court of appeals observed, *id.*, n. 11, nowhere in the lengthy record is there even any hint of the kind of coercive insistence necessary under *Zenith* to show patent misuse.[13] The petition (p. 27) misreads the decision of the court of appeals as suggesting that the district court was empowered to disregard *Zenith*. It was incumbent on the defendants to show that *Zenith* was applicable and they totally failed to do so. Plainly they could not, and the remaining petitioning defendant[14] should not be given an opportunity to further delay the satisfaction of his lawful obligation.

III.

There Are No Important Questions of Federal Law

Such legal questions as there are in this case turn on the unique nature of the Butterfield settlement and its effect on the most favored licensee clause, and on the proper interpretation of the royalty accounting clause, in

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[13] The case was tried without a jury and the district court afforded defendants great liberality in their presentation of testimony, including testimony on questions which were raised for the first time at trial. See App. B, p. 12.

[14] Two of the defendants in the proceedings below, Isen and Sitterle, do not join in this petition, and have not sought any further review of the decision below.

the light of the understanding of the parties. The applicability of the *Zenith* doctrine is, at most, entirely a question of fact. The petition contains no indication of any other litigation, in the relatively small contact lens industry or elsewhere, which will be affected by this case. Assuming that any of these questions will have any impact beyond the immediate parties to this petition, it will be limited to a discrete number of former licensees of an expired patent.

CONCLUSION

For the foregoing reasons, it is respectfully submitted that this petition for a writ of certiorari should be denied.

Dated: September, 1971.

Respectfully submitted,

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